

**PRIVATIZATION of ROAD and BRIDGE MAINTENANCE
in BRITISH COLUMBIA**

**TRANSFER of PUBLIC EMPLOYEES to the
PRIVATE SECTOR, BRITISH COLUMBIA EXPERIENCE**

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WORLD BANK ROAD MANAGEMENT TRAINING SEMINAR**

***WASHINGTON, D. C
DECEMBER 18, 1996***

The Government of British Columbia, Canada's most western province, announced on October 27, 1987 that it would privatize the maintenance of all provincial roads. The process would be completed in one year.

The extent of the infrastructure and assets involved in the privatization project can be seen from the following statistics:

- Roads----- 47,024 Kilometers (2 lane equiv.)
- Bridges----- 2,645 (20 foot to 900 meter spans).
- Employees----- 2700 (2280 privatized)
- Leased Equipment----- 2400 units.
- Sold Equipment -----3350 units.
- Initial Contract Amount was \$750,000,000 over 3 years.
- Latest contracts amount is \$1.5 Billion for 1995 to 2000.

The government's decision to privatize the maintenance of the roads and bridges was based on philosophical reasons rather than economical studies. The Principles of Privatization that were to be followed were:

1. Government's role is to manage and it should plan, facilitate and be the catalyst for the economy.
2. Except in unusual circumstances, the private sector should be responsible for commercial production of goods and services.
3. The private sector should deliver government programs when it can do so effectively, providing the public interest is protected.
4. Government would favor arrangements that encourage employee ownership.
5. Government would favor arrangements that support regional economics.
6. The government will ensure that employees, communities, firms and the general public are treated fairly.
7. No contractor can hold an interest in more than three contract areas.

When the government announced the Privatization Program it also announced an Early Retirement Program and a Government Restructuring (Regionalization) Program. At the time of these announcements there was very little information available for the public servants that appeared to have their jobs affected. There was much concern on their part as to what the future held for them. One of the Principles of Privatization was the favoring of employee ownership. The highway maintenance workers in each of the highway districts were encouraged to form a company and negotiate a three year contract with the government. The government would pay the cost of a Management Consultant to assist the new company for 10 days to help form the company. This was a difficult time for the employees who were all members of the British Columbia Government Employees Union (BCGEU). The union staff were constantly advising the employees not to agree or cooperate with the privatization initiative. At the same time many groups were proceeding (or attempting) to form companies - either out of fear of losing their work or for entrepreneur foresight. Most of the 35 Highway District staffs attempted to form companies to bid on the 28

contracts. There were 11 companies that eventually bid and 10 were successful. Half these companies are wholly owned by the employees and the other half have an experienced construction contractor as a minority partner. To be a valid employee company to negotiate with the government the employees had to have at least 51% control of the company and the capitalization.

As the contracts were announced and negotiated, the government employees put greater pressure on the government to better define their options for employment. The government finally clarified the options after about one year from the initial announcement and after the first two or three contracts had been activated. The employment options were:

- Accept employment with the successful contractor in the district.
- Stay with the government and fill vacant positions anywhere in the public service.
- Take the Early Retirement Package (if they were qualified).
- Resign.
- Severance Pay was not available under any option.

At the end of the process for the first round of contracts in 1988 there were 2280 employees transferred to the new Road and Bridge Maintenance contractors, a further 20 employees stayed with the government, a few resigned, and about 200 took early retirement.

Two issues were never really settled from a legal perspective: union succession rights and employee severance pay. Several court cases were started by contractors who did not want to be responsible in the future for any more severance pay than the time a laid off person actually worked for them. The contractors were also concerned that at the end of the first contract they would need to lay off the operations crews and that would necessitate a severance pay out. The government has continued to make it a condition of contract that any new contractor must make an offer to the old contractors employees on the same terms and conditions, (essentially this means taking over the existing union contract).

The role of the British Columbia Government Employees Union (BCGEU) in the initial contracting process, is interesting. When the government first announced the privatization initiative, the union was very negatively vocal. As the contracts were being negotiated the union played a spoiling role by advising the members not to accept offers from the contractors. Then as the contracts were activated the union had to act as bargaining agents for the employees who had defied the BCGEU advice and accepted job offers from the contractors. By the time the last contract was signed the BCGEU seemed to be quite comfortable dealing with the 20 different contractors.

Tripartite Committee composed of the government, the contractors and the BCGEU was formed in 1994 to discuss contracting issues and to make preparations for the new contracts to be called in 1995. During the deliberations of the committee it became obvious that the BCGEU was comfortable with the continued contracting of the road and bridge maintenance, providing the contract process continued to require the offering of employment to the previous contractors employees.

In British Columbia about one third of the work force is unionized, by most standards this is quite a high amount. The labor laws are very complex and most disputes are settled amiably by negotiations or mediation. However, from time to time there are strikes, even in the public sector. Twice in the last twenty years the BCGEU has struck and both times road maintenance was severely cur-tailed, particularly as the strikes were in the winter. Since Privatization there have been three strikes in different contract areas. In most cases when the negotiations have been on the verge of breaking down and a strike was imminent, the government has used persuasion to get the parties to agree. This action was usually taken to prevent public comment on privatization causing the problem. Generous contractors and forced settlements have resulted in a substantial increase in labor costs. Between 1988 and 1994 a senior machine operator received a 52% pay increase, whereas it would have been only 27% if government was doing the work.

Most of the persons who had entered the BC Public Service in the years prior to privatization had done so for career stability. In return for wages that were generally a little less than the private sector they were assured of stability in their job. The workforce was very well trained and were held in good regard by the public. Many of the employees were leading citizens in their communities. The announcement of the privatization was a difficult change to accept. There were several serious health conditions that developed, not just in the affected workers but also in their families. Most families suffered some level of trauma, at least until the worker was settled in a new job. Some persons and families never really recovered from the changes forced on them. Most of the new contractors have been very conscious of the need to develop a good public image and in doing so have given a feeling of worth and recognition back to the workers.

Most of the original privatized government employees are satisfied with the outcome of the privatization process. There is however, a sizable group who have been poorly treated as contractor employees. A few ex-government employees who entered into a poor joint venture with a management company lost most of their capital investment. Most of the employee owned companies have been very successful and the ex-government employees (as shareholders) have received generous dividends.

The Government of British Columbia has recently completed the fourth round of contracting at a project cost of \$1.5 Billion for a five year period. The destiny of the employee ownership principle of privatization can be seen in the steadily increasing number of contracts held by the employee groups. In Round 1 (1988) there were 10 employee owned contractors. In Round 2 (1991) there was an increase to 11, actually there was two new contractors and one Round 1 group failed. In Round 4 (1995) there are now 16 contracts held by companies owned by ex-government employees and they control 57% of the total value of all 28 contracts.